

# FICA TIP TAX CREDIT **FAQs**

After decades of being overlooked, salon, spa, and barbershop owners have secured long-overdue tax fairness—marking one of the most important legislative wins in beauty industry history.

There's been plenty of buzz—and plenty of confusion—about the new federal tax credit for FICA taxes on tip income. We're here to make it clear.

The Federal Insurance Contributions Act (FICA) is FICA. FICA taxes are composed of Social Security taxes and Medicare taxes. This provision provides a dollar-for-dollar credit for the amount of the employer's share of the Social Security and Medicare taxes (FICA tax) on employee tips. The employer share of the FICA tax is currently 7.65%.

The FICA Tip Credit is a non-refundable, general business tax credit. Unused credits can be carried back for one year or carried forward for up to 20 years.

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## WHAT IS THE 45B FICA TIP TAX CREDIT?

The 45B FICA Tip Tax Credit is a federal tax credit that allows salon, spa, and barbershop owners to claim a credit for the employer's share of FICA taxes paid on employee tips. It was originally created for the restaurant industry and has now been extended to include the beauty service industry.

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## WHAT DOES THIS NEW LAW MEAN FOR SALONS, SPAS, AND BARBERSHOPS?

Owners of establishments where tipping is customary can now claim a dollar-for-dollar credit for the employer-paid Social Security and Medicare taxes (FICA) on those reported tips. This aligns the treatment of beauty industry employers with that of restaurants, providing long-overdue tax fairness and relief.

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## WHO QUALIFIES FOR THE 45B FICA TIP TAX CREDIT?

You qualify if:

- You operate a salon, spa, or barbershop where tipping is customary.
- You pay employer FICA taxes on employee tips.
- Your employees report their tips to you in compliance with IRS rules.

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## DOES THE CREDIT APPLY TO BOOTH RENTERS OR INDEPENDENT CONTRACTORS?

No. Booth renters and independent contractors are self-employed and already pay their own Social Security and Medicare taxes through self-employment tax. As independent business owners, they have the ability to deduct their share of these taxes on their personal returns, which is not available to employers of tipped employees.

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## HOW MUCH IS THE CREDIT WORTH?

The credit is equal to the employer's share of FICA taxes (currently 7.65%) on tips reported by employees. For example, if employees report \$50,000 in tips, and you pay \$3,825 in employer FICA on those tips (7.65% of \$50,000), you can claim a \$3,825 tax credit.

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## IS THIS CREDIT RETROACTIVE?

The credit is available starting from the effective date of the law. It is available for the employer's share of FICA taxes paid on employee tips beginning January 1, 2025.

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## HOW DO I CLAIM THE CREDIT?

You will claim it on your federal business tax return. IRS forms and instructions will be updated to reflect the expansion to beauty service businesses.

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## WHY WAS THIS LAW PASSED?

The beauty industry successfully advocated for this provision to recognize that tips are a significant portion of service employees' earnings, just like in restaurants. Salon, spa, and barbershop owners were unfairly shouldering FICA tax on tips they do not control, and this credit helps correct that inequity.

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## HOW DOES THIS IMPACT MY EMPLOYEES?

There is no change for employees – they still report tips as income, and you still withhold and pay taxes accordingly. The credit only impacts the employer's tax liability.

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## DOES THIS CREDIT REDUCE MY EMPLOYEES' SOCIAL SECURITY OR MEDICARE BENEFITS?

No. Employee benefits are based on their total wages and tips reported. This credit does not affect the employees' share of taxes or their benefit calculations.

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## WHERE CAN I GET HELP APPLYING FOR THE CREDIT?

- The IRS (once guidance is updated)
- Industry associations, including the Professional Beauty Association
- Tax professionals



Professional  
Beauty  
Association

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## **WILL THE IRS ISSUE NEW GUIDANCE?**

Yes, the IRS is expected to issue updated instructions for claiming the credit. We will share any updates with you as soon as they are published.

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## **WHAT ABOUT STATE TAXES?**

The 45B FICA Tip Tax Credit is a federal provision. It does not automatically apply to your state tax filings. Check with your state's taxing authority or your accountant to see if there are similar credits at the state level.

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## **IS THIS CREDIT PERMANENT?**

Yes, the current law makes the credit available on an ongoing basis, similar to how it applies to restaurants, unless changed by future legislation.

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## **WHERE CAN I LEARN MORE?**

The Professional Beauty Association will continue to update members through:

- Email newsletters
- Our website
- Webinars and training
- Direct member support



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**If you have any questions, please  
contact [kati@probeauty.org](mailto:kati@probeauty.org)**